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## FISCAL IMPACT REPORT

SPONSOR Beffort DATE TYPED 01/28/05 HB \_\_\_\_\_

SHORT TITLE Research & Development Business Tax Credit SB 53

ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY06	FY07			
(\$1,500.0)	(\$2,200)	Increasing	Recurring	General Fund
(\$300.0)	(\$450.0)	Increasing	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates: House Bill 245 (House Bill 51 is very similar)

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 53 provides a tax credit to small research and development businesses which would apply to all gross receipts, compensating, or withholding taxes owed to the state. In order to qualify as a “qualified research and development small business”, the business must employ no more than 25 full-time employees; have total revenues of no more than \$5 million in any prior fiscal year; not have had, in any prior calendar month, more than 50 percent of its voting securities or other equity interest owned by another business; and has made qualified research expenditures for the period of 12 calendar months ending with the month for which the credit is sought of at least 20 percent of its total expenditures. In calculating the qualified research expenditures, the business cannot include grant-funded research, property expenditures in connection with industrial revenue bonds, or property for which the taxpayer has received a Capital Equipment Tax Credit, an Investment Credit or a Technology Jobs Tax Credit. A qualified research expenditure is defined an expenditure related to qualified research, meaning research that (1) is under-

taken for the purpose of discovering information that is technological in nature and the application of which is intended to be useful in the development of a new or improved business component of the taxpayer; and (2) in which substantially all activities constitute elements of a process of experimentation related to new or improved function, performance, reliability or quality, but not related to style, taste, cosmetic, or seasonal design factors. The tax credit is available until June 30, 2009.

This bill is being proposed on behalf of the Revenue Stabilization and Tax Policy Committee.

The effective date is July 1, 2005.

### **FISCAL IMPLICATIONS**

The TRD fiscal impact totals -\$1.8 million in FY06 and -\$2.65 million in FY07. According to the TRD analysis, tax return data indicates that there are more than 250 firms eligible for the proposed credits. In the most recent year, TRD estimates that these firms had combined gross receipts, withholding, and compensating tax liability – and therefore total potential credits of -- of \$3.8 million. The fiscal impacts assume that a little less than half of the eligible taxpayers take advantage of the credit in the first year (\$3.9 million x 47 percent generates a \$1.8 million impact), but that the number of businesses participating increases significantly in future years.

### **ADMINISTRATIVE IMPLICATIONS**

TRD would be responsible for providing the credit claim forms for the proposed tax credit. According to TRD, new forms would be needed and instructions and publications would have to be modified. Manual review and tracking of the credit would be required. An approval process would be needed. TRD would require 0.5 additional FTE to administer the provisions of this bill.

**OPJ/lg**